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The Relation of American Railroads to Development of Foreign Trade

An Address

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By

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THE RELATION OF AMERICAN RAILROADS TO DEVELOPMENT OF FOREIGN TRADE.

Whether the relation of the American railroads to foreign trade after the European war is to be substantially different from that which it was before, and has been during, the war depends upon substantial progress in the development of American policy with respect to export trade generally. The present limited question is then very little more or less than the general question to which this Foreign Trade Convention is addressing itself. To enable the railroads to be of the largest co-operative service in the development of foreign trade there must be progressive modifications of pre-existing practices in the relations of the railroads and the ports, some of which I shall endeavor to indicate as I see them.

The elemental function of a railroad—to facilitate the exchange of commodities between more or less widely separated communities—is not affected by the destination, whether it be domestic or foreign. In this respect the relation of our railroads to the commerce of the nation is not different now from what it has been in the past or relatively from what it may be in the future. But foreign commerce requires of a railroad more than its elemental function.

In the movement of all export commerce from the United States, except that carried by land into Canada and Mexico, there are three distinct units of service: first, the movement from the point of origin to the tide-water terminal; second, the handling from the cars either direct or through a storage warehouse to the ocean carrier; and, third, the ocean carriage to the foreign port. These units of transportation enter into the handling of import traffic in the reverse order. Of the three, inland transportation alone is the function of the railroad. The handling of goods at the port and their transfer to and from ocean vessels are entirely separate functions which may, and in my judgment should, properly be performed by a separate agency.

Generally speaking, in this country facilities at the ports for the interchange of export and import traffic have been provided by the railroads themselves. In numerous cases several railroads serving a single port have each provided independent water-front terminals and railroads serving more than one port have provided separate facilities for each port served, thus involving large investments of capital for which there has been no adequate return because competition has to a considerable extent required the absorption of terminal costs as a practical deduction from the normal inland transportation charges, and, further, because the business is divided between too many ports and between too many separately owned and operated terminals.

Such conditions are economically unsound and must come to an end

if economy of transportation is, in a national sense, to be a factor in the increase of the volume of our export and import traffic.

Let us hope that our foreign commerce may in time grow until there is real need of all the ports with which nature has blessed the long coast line of the United States, but in converting that hope into terms of actual life we may as well realize that a large number of insufficiently equipped ports is not as efficient a factor in the development of commerce at the stage we have now reached as would be a few sectionally representative ports, thoroughly well equipped. If this view shall obtain there is in prospect an increasingly fierce competition between individual ports for this position of sectional representation. On past experience we may expect the railroads to be in the vortex of this controversy. It may be settled by the biological law of the survival of the fittest or it may be settled by the modern panacea for business ills, a statute; but in any event the best interests of our foreign trade will be in abeyance until it is settled. It is today a fashion to consider German practice in all considerations of efficiency. There may be more than an illustration of my point in the fact that the nation which has in recent years made the largest deliberate increase of its foreign commerce has concentrated on two well equipped ports. It is probable that in this respect Germany's transportation costs must have been benefited from the operation of the economic law that concentration of volume, short of congestion, reduces costs units.

The development of the seaports of the United States and especially that of the South Atlantic and Gulf ports, in relation to the railroads, has had its own peculiar history. Today, when in the matter of rail transportation the political theory of "equal opportunity for all, special privileges to none" is having what is perhaps a too literal application, because it is often in the teeth of the natural laws of trade, the rational explanation of the partial and incomplete development of some of our seaports is forgotten and the attempt is made to explain it by diabolical design. When the first railroads were built from the sea to the interior, they were comparatively small and always weak units. At the beginning they were economic monopolies and controlled all the traffic of a territory, insufficient though that may have been. As the railroad system was linked up and competition began between ports and between rival producing territories, the management of each local line which reached a port, actuated by the usual resource of the weak in dealing with a strong and impetuous force such as moves competitive commerce, exercised every effort of ingenuity to discriminate in transportation practices and charges in favor of its single port, thereby seeking desperately to maintain and to increase the volume of traffic of which it formerly had a monopoly. This was the only interest of the original seaboard rail lines; duty to the shippers of the entire United States was not yet considered: the golden rule was in abeyance so far as the early railroads were concerned. When it came

to pass that rail transportation swallowed all other forms of inland transportation, as the lean kine swallowed the fat kine in Pharaoh's dream, and the shipper whatever his location no longer depended upon any single railroad or any single seaport, the franchises or what local philosophers still claim to be the absolute rights of particular ports in respect of certain traffic were thus transmuted into competitive opportunities. It followed that discrimination in favor of the individual port has gradually been withdrawn by the railroad, not from any change of heart nor even from any lack of good-will, but as a consequence of economic pressure. This consequence of the development of transportation in a national sense seems to have proven an apparent atrophy to the commercial enterprise of some of the seaboard communities affected. They had come to depend altogether upon the railroad for their commercial pabulum: they had looked to the railroad to supply not only the transportation and the terminals, but the traffic as well, and when in time the discrimination in their favor was removed, partly by the working of an economic law and partly by the fixed and inelastic methods which have, in the past, been nationally characteristic of our public regulation of railroad practices, it has resulted that some seaport communities have exercised more energy in asserting claims to assumed natural rights and in prosecuting charges that the railroad has discriminated against them, with evil intent, than in adjusting, as the railroads have done, their practice to new economic conditions. Straight thinking on this question, in large terms, is necessary for that commercial health in which alone the opportunity of a seaport for foreign commerce may be realized. The ports which would keep up with the procession and become what President Wilson has called Masters of Competitive Supremacy, must do something in their own interest, apart from the railroads, or drop out of the race. If they act, rather than wait and bewail, they will find the railroads quick and eager to do their share. A man and a milch cow may technically speaking be a team, but popular usage interprets the term as two or more energetic units which pull together.

Export commerce will always seek the line of least resistance. It will go to the point where the service is best, storage facilities are most readily accessible and most of all where there are ships. To bring the ships the successful port seeks above all to develop its import traffic and its banking facilities. Next in importance, and here I come back directly to my subject, the port itself should provide terminal facilities for the exchange of tonnage between rail and water carriers. My own view is that the demands on the railroads in the future in respect of inland transportation are going to be at least equal to the rates which the public will allow for rail service, and that the seaport must hereafter look elsewhere than to the railroads to provide, or even to pay for the use of, water terminals.

Seaport communities desiring to participate in the benefits of for-

foreign commerce and to obtain a competitive advantage over other available ports should then, I maintain, provide the necessary terminal facilities either through municipal ownership or through local terminal companies supported by local interest and thus undertake the responsibility of supplying facilities without discrimination for all ships and all railroads reaching the port; and further they should impose charges upon the traffic, rather than upon the railroad, sufficient to make the terminal self-supporting. In competition with rival ports they may have to bear in the form of local taxes or otherwise locally so much of the terminal cost as may be necessary to attract and hold competitive traffic which is free to seek any one of several ports. New Orleans has taken a step in this direction through its public ownership of docks and through the wise policy of the Dock Board in undertaking to have uniform charges established for service performed at the city docks and at those provided by the railroad and the railroad-owned terminal companies.

When this point has been made clear as a principle of sound growth, it may be added that, while the obligations of a railroad as a common carrier are not different with respect to foreign commerce than with respect to domestic commerce, the policies of a railroad need not necessarily be limited altogether by its obligations. They never have been in the past and will not be in the future. The railroad, so long as it is a function of private endeavor, properly may and always will consider its interests as a business enterprise. Because prosperous communities along its lines bring increased traffic to the railroad, the alert management is vitally interested in the development of the territory which it serves and in helping the producers in that territory to find profitable markets either at home or abroad. As a large proportion of the products of the United States, either as raw materials or manufactured commodities, find, or, more strictly speaking, after domestic needs have been met, ought to find, markets in foreign countries, the carriage of these products to the seaports make up such a large part of the business of the railroads that they may properly so shape their policies as to encourage this business. This many railroads have done, and perhaps, as affects their own interest, have in the past overdone.

So long as we have a surplus of cotton, of coal, of grain and its products, and of lumber, with a vacuum of such articles in other parts of the world, the people who need those commodities will seek them here. We may not, however, assume that, because foreign countries do buy of us, we have a natural and inexpugnable monopoly in supplying them. even when they are less fortunate than ourselves with respect even to those commodities of which we have a surplus. The facts "jump in our eyes," as the French say. Great Britain exports more coal than does the United States; Russia has a great surplus of wheat; Argentina, with constantly increasing areas of cultivation, finds a ready market for its surplus grain in those countries which also buy from us and which are

eager to supply the needs of Argentina for every kind of manufacture which that country may require, including the manufactures of cotton. England is earnestly stimulating the growing of cotton in Egypt and in India. Germany is ambitious of economic independence in respect of raw cotton, and is looking forward to the possibility of growing cotton under her own dominion, by the waters of Babylon. All such competition with our cotton has as yet been negligible, but who will dare say what the future has in store when there is such a stimulus for success.

Prior to the war Germany exported cotton goods alone to the value of more than \$110,000,000 annually, securing the raw material mainly in this country and selling manufactures thereof even at our own doors.

Therefore, with respect to any articles of commerce which may be obtained elsewhere, we must not only offer an article at least as good in quality, as attractive in other respects and at prices as low as those offered by our competitors in other countries, but we must also vigorously go after the business and in all respects meet the effort of our competitors.

The war has temporarily removed from the field of competition some of our strongest competitors for world trade. It has curtailed the ability of others to maintain the volume of their foreign trade and has, temporarily at least, increased our opportunity in the foreign field. Nevertheless the plain fact is, that, aside from the sale of munitions and supplies to the belligerents themselves and despite the largest public discussion and advertisement of the subject during the past eighteen months, we can not yet say that, in any large way, have we availed ourselves of the opportunity to increase a permanent and enduring trade with neutral countries. Whatever may be the explanation, the fact remains, we have not yet taken substantial advantage of an opportunity which diminishes every month as the war in Europe nears its term. It is an application of the old fable of the books of the Sibyl: we may expect to pay as much for half as might have sufficed to buy the whole.

This failure is doubtless due in good part to the fact that so much of our energy is employed in the production of the very large volume of business destined to the warring nations, but in that fact there is still ground for hope. With the cessation of the war this productive energy will be released, and it remains the duty of those who claim prevision of commercial opportunity to be looking to its employment in other directions. It should be the purpose of every patriotic American that a substantial part of that energy should be devoted to the manufacture and exportation of articles which may find markets abroad. Especially is this true for the reason that by developing a steady foreign trade we insure to our manufacturers a very present help in times of depression at home in the form of a constant revenue from sources unaffected by economic conditions which may temporarily diminish business profits in the United States. As a practical illustration of this which may come home to us here in the

South, I may refer to the fact that when, on the outbreak of the European war, the cotton market collapsed and business was profoundly depressed throughout the South, Chattanooga felt the depression relatively less than other Southern cities because her manufacturers were then and ever since have been selling goods in the markets of every continent and of all the islands of the seven seas.

At the close of the war our merchants and manufacturers will find their European competitors in every field, not only endeavoring to get any new business that may offer, but also striving to wrest from American concerns the business they have developed during the war. It will be no ladylike competition, for we must face the fact that despite our philanthropies and our charities one of the results of this war will be to make the American business man not only a rival, but a hated rival, of all the nations now engaged in war. Even those who have profited by their control of the sea to buy munitions of us envy us today and show evidence that they are prepared to hate us as soon as it shall no longer be expedient to be polite. We may agree with Adam Smith that competitive trade is not war, but every experienced man recognizes that it is no school for the inculcation of dancing school manners. In actual life men love and hate where their interest lies.

The time, therefore, to work for permanent export business after the war is now,—not tomorrow morning, but tonight.

One of our strongest and most aggressive competitors in the future, as in the past, will be Germany. It suffices to repeat—like old Cato's warning "Carthage must be destroyed" we can never say it too often—the value of German annual exports (including precious metals) increased in 33 years to the extent of more than \$836,000,000. That country, where the fostering of foreign trade has been secondary only to the creation of the wonderful military machine of the Empire, has in comparatively recent years, made greater strides in the development of manufacturing industries and in the exportation of their products than has any other nation. This has been accomplished in no small measure by a system of governmental stimulus which threw wide open to foreign trade the government owned railroads and terminals, which subsidized steamship lines and permitted the payment by manufacturing syndicates of premiums on exports.

It may not be amiss, as I am speaking primarily of transportation, to call attention to the fact that while the value of Germany's imports has exceeded the value of her exports, the tonnage was fairly balanced, and this, as every transportation man knows, is a very essential thing if the best results are to be obtained as to transportation costs. In this illustration there is, as I see the problem, one of the most important elements of a successful foreign trade. It is at the basis not only of practical economy, but of economic law. We may not, if we expect to be successful in our efforts to build up a world commerce, confine our efforts to exporta-

tion. We must furnish a market for the things which our customers have to sell, particularly raw materials, if we expect them to prefer our goods to those of our competitors. During the past eighteen months we have heard much of the opportunity for American exports, but not enough of the obligation in respect of corresponding imports which a true foreign trade imposes. The problem of foreign exchange has brought this home to our international bankers and they are now sounding the warning in clarion tones.

Coming back again to the question of railway transportation and attempting to formulate some of the things which the American railways should be enabled to do to promote foreign trade, I turn once more to the example of Germany. I do not propose government subsidies, but the opportunity to follow in private endeavor what German railways have done, without undue or unnecessary governmental restriction. The German railways have given most effective aid in the development of that country's great international traffic. They have applied special rates on export traffic lower than on domestic traffic, and again special rates lower on export traffic to German ports than on that passing into or through other countries by rail. In their rates to German ports for export they make distinctions between traffic destined to different countries. That is to say, they make distinctions in their charges to meet the necessities of competition, differing in degree as to different territories of destination, just as the merchant must vary his profits to meet the varying competition found whenever he attempts to extend his trade beyond local boundaries. Our railroads in the United States must do these things if our people are to enter broadly into competition with other countries for a world-wide trade. And they are ready and willing to do so, if they do not thereby endanger the entire fabric of the domestic rates on which they must depend for bread and butter, if not for jam. To state this again practically and not theoretically, the railroads of the United States must be allowed to do these things without being charged with, and penalized for, discrimination against domestic traffic. Such a proposal requires a broad vision by regulating authority, but it has well rooted precedents. Even the Declaration of Independence does not claim more than that all men were *created* equal, and even Thomas Jefferson recognized that domestic commerce and foreign commerce were two separate and distinct functions governed by different laws, even when carried on by the same individual.

While there has been some just criticism in recent years of the rigidity of the export rates of American railroads in the face of suddenly developing requirements and opportunities, such as will always be characteristic of export trade, it has been generally recognized that that rigidity has been due largely to the process of adjustment of railroad practice to the steadily heavier hand of public regulation. In this process the indirect influences have been as potent as the direct; for while regulation has

never attempted to prescribe a general relation between export and domestic rates the existence of low export rates has been a constant menace in attacks upon the reasonableness of domestic rates. Nevertheless when all is said on this subject it remains a fact that the railways of the United States have not been less effective than those of Germany or of any other country in regard to service or charges. We haul export grain 900 miles for 2.74 mills per ton per mile, and coal is carried to tidewater for less than 3 mills per ton per mile. Our rates generally on export traffic are cheaper, service considered, than are the rates of either the German or English railways. It can never be fairly said that in the past the railroads of the United States have failed to do their part in the development of the export traffic which the United States has heretofore produced.

With this claim it may be admitted that looking ahead and not behind, changes of methods on the part of the railroads as on the part of our manufacturers may be necessary to give the largest effect to our present opportunity for a really great foreign trade. At the moment what seems most necessary is a full understanding of what is required of all concerned to meet national competition as we shall find it. It is a demand that we shall think in larger terms than has been our wont. The preparation of that understanding is now going on, too slowly it seems to some who have vision to see the goal, but still it is going on. Great strides have been made in the last year, and many new, and with us unprecedented, things have been done. The National Foreign Trade Council has been a large factor in this patriotic stimulus of progress. Some of the railways also have done some of these things, but speaking of the problem as a whole, and of the railways as a part of it, it may be said that the railways are managed by men who are alert to change their methods when advantage of change is even darkly hinted; and that they may be expected to do their part in whatever is really necessary.

Nor is there any reason to assume that regulating authority can not or will not agree that the railroads may do whatever is shown to be sound and best for the nation as a whole, for have we not witnessed the spectacle of a political body revealing at once vision and courage by agreeing, in the face of a deep-rooted selfishness and a clamor of popular prejudice, to advances in domestic railroad rates which had been proven to be necessary if our railroads are to continue to be true commercial arteries. If regulating authority shall take the broad view of the relation of the American railroads to foreign trade which has been demonstrated to be successful in other lands, and those who by actual experience are expert in foreign trade shall indicate, frankly and without too much individual selfishness, the requirements of each situation as it shall arise, I venture to say that the railways of this country may be relied upon to do their utmost, perhaps more than their rightful share, in co-operative effort to take full advantage of our immediate national opportunity.

It has already been demonstrated that the railroads may aid ef-

fectively in the development of foreign commerce by co-operation with the producing communities and the seaports which they serve. It is not only impracticable, but it would manifestly be improper, for a railroad to act as a selling agency in foreign markets for individual merchants and manufacturers, as has been ingenuously proposed by some; but the railroad may properly gather and make available to all shippers in a position to use its facilities information as to foreign markets, as to customs laws and port regulations, as to methods of packing and shipping and as to all other matters that may be helpful in building up export business. It may, with equal propriety, advise merchants in other countries where and from whom in the territory served by it they may buy such commodities as they want. It is service such as this that Southern Railway Company and the companies associated with it have undertaken to perform with respect to trade with the countries of South and Central America and, to some extent, with other foreign countries, through their South American Agency, through Foreign Freight Agents at New Orleans and Mobile, and through freight traffic agents at other seaports. I am glad to be able to report that this special service is now beginning to show real results and to justify the experiment.

